Indian Economy · GS - III

Unconditional cash transfers can provide immediate social protection, but their rising fiscal burden may constrain the developmental priorities of State governments. Critically examine this trade-off in the context of India's fiscal federalism.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 18/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Fiscal sustainability, welfare expenditure, unconditional cash transfers, committed expenditure, capital formation, fiscal deficit, intergenerational equity, targeting, outcome-based budgeting, cooperative federalism.

Model Answer

Introduction

Unconditional cash transfers have emerged as an important instrument of welfare delivery in several Indian States. According to the reported PRS analysis, State spending on such transfers is projected to reach ₹4 lakh crore in 2026–27.

Significance of Cash Transfers

- **Social protection:** Provide immediate income support to vulnerable households.
- **Women empowerment:** Direct transfers to women can strengthen their financial autonomy and household decision-making.
- **Consumption demand:** Additional disposable income can support local consumption and economic activity.

- **Administrative efficiency:** Direct Benefit Transfer (DBT) can reduce intermediaries and improve transparency.

Fiscal and Developmental Concerns

1. **Revenue pressure:** Rising recurring commitments can reduce fiscal flexibility, particularly when committed expenditure already absorbs a substantial share of revenue receipts.
2. **Crowding out:** Higher welfare commitments may restrict capital expenditure on infrastructure, education and healthcare.
3. **Debt sustainability:** States with high debt and limited revenue capacity may face increasing borrowing requirements.
4. **Opportunity cost:** Poorly designed transfers may divert resources from long-term human capital formation.

Way Forward

States should adopt transparent fiscal impact assessments, medium-term expenditure frameworks and outcome-based budgeting. Welfare transfers should be evaluated on their distributional impact and developmental outcomes. Greater mobilisation of own-tax revenue and protection of productive capital expenditure are equally important.

Conclusion

Cash transfers are legitimate instruments of social protection, but their sustainability depends on fiscal capacity and policy design. The objective should be to balance immediate welfare with long-term developmental investment.

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